

Auditing Procedures Report V1.04

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Issued under Public Act 2 of 1968, as amended .

Unit Name	Village of Galien	County	BERRIEN	Type	VILLAGE	MuniCode	11-3-040
Opinion Date-Use Calendar	Aug 1, 2008	Audit Submitted-Use Calendar	Aug 5, 2008	Fiscal Year-Use Drop List	2008		

If a local unit of government (authorities & commissions included) is operating within the boundaries of the audited entity and is NOT included in this or any other audit report, nor do they obtain a stand-alone audit, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input checked="" type="checkbox"/>	18. Are there reported deficiencies?
<input checked="" type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	\$ 209,428.00
General Fund Expenditure:	\$ 202,372.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 109,756.00
Governmental Activities Long-Term Debt (see instructions):	\$ 0.00

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

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CPA Firm Name	Abraham & Gaffney, P.C.	Unit's Street Address	121 S. Cleveland	City	Galien	LU Zip	49113		

**Village of Galien
Berrien County, Michigan**

FINANCIAL STATEMENTS

February 29, 2008

Village of Galien
Berrien County, Michigan

February 29, 2008

VILLAGE OFFICERS AND TRUSTEES

Clarence Marsh	President
Betty Hoag	Treasurer
Christine Palmer	Clerk
Juanita Swank	President Pro Tem
Paul Palmer	Trustee
Mary Leazenby	Trustee
Robert White	Trustee
Steve Schmitz	Trustee
Kim Wieczorek	Trustee

Village of Galien
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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



ABRAHAM & GAFFNEY, P.C.
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INDEPENDENT AUDITOR'S REPORT

To the Honorable President and
Members of the Village Council
Village of Galien
Galien, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Galien, Michigan as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Galien's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Galien, Michigan as of February 29, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information as identified in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Village has not presented a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be part of the basic financial statements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 1, 2008

BASIC FINANCIAL STATEMENTS

Village of Galien

STATEMENT OF NET ASSETS

February 29, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current			
Cash	\$ 421,413	\$ 38,463	\$ 459,876
Cash - restricted	-	71,228	71,228
Investments	-	71,552	71,552
Investments - restricted	-	191,783	191,783
Receivables	13,469	24,368	37,837
Internal balances	(11,632)	11,632	-0-
Prepays	5,168	1,199	6,367
Due from other governmental units	18,436	-	18,436
Total current assets	446,854	410,225	857,079
Noncurrent			
Capital assets not being depreciated	8,380	20,000	28,380
Capital assets, net of accumulated depreciation	476,915	421,961	898,876
Total noncurrent assets	485,295	441,961	927,256
TOTAL ASSETS	932,149	852,186	1,784,335
LIABILITIES			
Current			
Accounts payable	6,807	227	7,034
Accrued liabilities	5,863	-	5,863
Due to other governmental units	2,842	-	2,842
TOTAL LIABILITIES	15,512	227	15,739
NET ASSETS			
Invested in capital assets	485,295	441,961	927,256
Restricted for streets	285,223	-	285,223
Unrestricted	146,119	409,998	556,117
TOTAL NET ASSETS	\$ 916,637	\$ 851,959	\$ 1,768,596

See accompanying notes to financial statements.

Village of Galien

STATEMENT OF ACTIVITIES

Year Ended February 29, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business-type Activities	
Primary government:						
Governmental activities						
General government	\$ 62,993	\$ 11,844	\$ -	\$ (51,149)	\$ -	\$ (51,149)
Public safety	22,733	872	-	(21,861)	-	(21,861)
Public works	202,286	15,966	40,024	(146,296)	-	(146,296)
Community and economic development	3,998	5,441	-	1,443	-	1,443
Recreation and cultural	1,928	6,511	275	4,858	-	4,858
Total governmental activities	293,938	40,634	40,299	(213,005)	-0-	(213,005)
Business-type activities:						
Sewer system	103,468	78,674	-	-	(24,794)	(24,794)
Total primary government	<u>\$ 397,406</u>	<u>\$ 119,308</u>	<u>\$ 40,299</u>	(213,005)	(24,794)	(237,799)
General revenues:						
Property taxes				82,486	-	82,486
State shared revenue				54,067	-	54,067
Investment earnings				18,579	17,402	35,981
Miscellaneous				24,631	3,173	27,804
Total general revenues				179,763	20,575	200,338
Change in net assets				(33,242)	(4,219)	(37,461)
Net assets, beginning of the year				949,879	856,178	1,806,057
Net assets, end of the year				<u>\$ 916,637</u>	<u>\$ 851,959</u>	<u>\$ 1,768,596</u>

See accompanying notes to financial statements.

Village of Galien

GOVERNMENTAL FUNDS BALANCE SHEET

February 29, 2008

	General	Major Street	Local Street
ASSETS			
Cash	\$ 78,083	\$ 118,874	\$ 184,349
Taxes receivable	13,469	-	-
Due from other funds	36,080	-	-
Due from other governmental units	9,480	6,407	2,549
Prepays	3,961	70	70
TOTAL ASSETS	\$ 141,073	\$ 125,351	\$ 186,968
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 6,745	\$ -	\$ -
Accrued liabilities	5,863	-	-
Due to other governmental units	2,842	-	-
Due to other funds	18,267	14,385	12,711
TOTAL LIABILITIES	33,717	14,385	12,711
FUND BALANCES			
Reserved for prepaids	3,961	70	70
Unreserved			
Designated for subsequent year's expenditures	38,125	9,800	18,320
Undesignated, reported in:			
General Fund	65,270	-	-
Special Revenue Funds	-	101,096	155,867
TOTAL FUND BALANCES	107,356	110,966	174,257
TOTAL LIABILITIES AND FUND BALANCES	\$ 141,073	\$ 125,351	\$ 186,968

See accompanying notes to financial statements.

Police	Nonmajor Governmental Funds	Total Governmental Funds
\$ 15,532	\$ 24,575	\$ 421,413
-	-	13,469
-	7,018	43,098
-	-	18,436
1,067	-	5,168
<u>\$ 16,599</u>	<u>\$ 31,593</u>	<u>\$ 501,584</u>

\$ -	\$ 62	\$ 6,807
-	-	5,863
-	-	2,842
9,189	178	54,730
9,189	240	70,242
1,067	-	5,168
7,937	1,625	75,807
-	-	65,270
(1,594)	29,728	285,097
7,410	31,353	431,342
<u>\$ 16,599</u>	<u>\$ 31,593</u>	<u>\$ 501,584</u>

Village of Galien

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

February 29, 2008

Total fund balance - governmental funds \$ 431,342

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 641,112	
Accumulated depreciation is	<u>(155,817)</u>	
Capital assets, net		<u>485,295</u>
Net assets of governmental activities		<u><u>\$ 916,637</u></u>

See accompanying notes to financial statements.

Village of Galien

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended February 29, 2008

	General	Major Street	Local Street
REVENUES			
Taxes	\$ 83,304	\$ -	\$ -
Licenses and permits	5,441	-	-
Intergovernmental	65,623	35,663	14,027
Interest and rents	24,833	4,807	8,652
Other	25,921	99	3,896
TOTAL REVENUES	205,122	40,569	26,575
EXPENDITURES			
General government	53,542	-	-
Public safety	1,782	-	-
Public works	87,073	39,967	127,340
Community and economic development	-	-	-
Recreation and cultural	-	-	-
Other	58,069	-	-
TOTAL EXPENDITURES	200,466	39,967	127,340
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	4,656	602	(100,765)
OTHER FINANCING SOURCES (USES)			
Transfers in	5,450	-	164,181
Transfers out	(14,181)	-	(5,450)
TOTAL OTHER FINANCING SOURCES (USES)	(8,731)	-0-	158,731
NET CHANGE IN FUND BALANCES	(4,075)	602	57,966
Fund balances, beginning of year	111,431	110,364	116,291
Fund balances, end of year	\$ 107,356	\$ 110,966	\$ 174,257

See accompanying notes to financial statements.

<u>Police</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 83,304
752	-	6,193
-	-	115,313
203	8,138	46,633
<u>285</u>	<u>275</u>	<u>30,476</u>
1,240	8,413	281,919
-	-	53,542
17,138	-	18,920
-	-	254,380
-	3,998	3,998
-	1,928	1,928
<u>-</u>	<u>-</u>	<u>58,069</u>
<u>17,138</u>	<u>5,926</u>	<u>390,837</u>
(15,898)	2,487	(108,918)
-	-	169,631
<u>-</u>	<u>(150,000)</u>	<u>(169,631)</u>
<u>-0-</u>	<u>(150,000)</u>	<u>-0-</u>
(15,898)	(147,513)	(108,918)
<u>23,308</u>	<u>178,866</u>	<u>540,260</u>
<u>\$ 7,410</u>	<u>\$ 31,353</u>	<u>\$ 431,342</u>

Village of Galien

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended February 29, 2008

Net change in fund balances - total governmental funds **\$ (108,918)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, this amount is:

Capital outlay	\$ 130,721	
Depreciation expense	<u>(33,822)</u>	
Excess of capital outlay over depreciation expense		96,899

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. The change in deferred revenue for the current period is:

(21,223)

Change in net assets of governmental activities **\$ (33,242)**

See accompanying notes to financial statements.

Village of Galien

Proprietary Fund

STATEMENT OF NET ASSETS

February 29, 2008

	Business-type Activities <u>Sewer System</u>
ASSETS	
Current assets	
Cash	\$ 38,463
Cash - restricted	71,228
Investments	71,552
Investments - restricted	191,783
Receivables	
Accounts, net of allowance for doubtful accounts	23,878
Accrued interest	490
Prepays	1,199
Due from other funds	<u>11,632</u>
Total current assets	410,225
Noncurrent assets	
Capital assets not being depreciated	20,000
Capital assets, net	<u>421,961</u>
Total noncurrent assets	<u>441,961</u>
TOTAL ASSETS	852,186
LIABILITIES	
Current liabilities	
Accounts payable	<u>227</u>
NET ASSETS	
Invested in capital assets	441,961
Unrestricted	<u>409,998</u>
TOTAL NET ASSETS	<u>\$ 851,959</u>

See accompanying notes to financial statements.

Village of Galien

Proprietary Fund

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended February 29, 2008

	Business-type Activities <u>Sewer System</u>
OPERATING REVENUES	
Charges for services	
Usage fees	\$ 64,924
Equipment rental	13,750
Other	<u>3,173</u>
TOTAL OPERATING REVENUES	81,847
OPERATING EXPENSES	
Salaries and wages	24,132
Fringe benefits	19,439
Utilities	1,994
Insurance	1,655
Repairs and maintenance	5,000
Equipment rental	3,780
Contracted services	4,263
Supplies	1,357
Other	3,495
Depreciation	<u>38,353</u>
TOTAL OPERATING EXPENSES	<u>103,468</u>
OPERATING (LOSS)	(21,621)
NONOPERATING REVENUES	
Interest revenue	<u>17,402</u>
CHANGE IN NET ASSETS	(4,219)
Net assets, beginning of year	<u>856,178</u>
Net assets, end of year	<u><u>\$ 851,959</u></u>

See accompanying notes to financial statements.

Village of Galien

Proprietary Fund

STATEMENT OF CASH FLOWS

Year Ended February 29, 2008

	Business-type Activities Sewer System
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 68,500
Cash paid to other funds	2,500
Cash paid to suppliers	(21,471)
Cash paid for employee benefits	(19,439)
Cash paid to employees	(37,319)
NET CASH USED BY OPERATING ACTIVITIES	(7,229)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital acquisitions	(7,525)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of investments	(263,335)
Maturity of investments	261,223
Interest revenue	17,402
NET CASH PROVIDED BY INVESTING ACTIVITIES	15,290
NET INCREASE IN CASH DURING YEAR	536
Cash, beginning of year	109,155
Cash, end of year	\$ 109,691
Reconciliation of operating loss to net cash used by operating activities	
Operating loss	\$ (21,621)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	38,353
Decrease in receivables	403
Decrease in prepaids	26
(Increase) in due from other funds	(11,250)
Increase in accounts payable	47
(Decrease) in due to other funds	(13,187)
NET CASH USED BY OPERATING ACTIVITIES	\$ (7,229)

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Galien is located in Berrien County, Michigan and has a population of approximately 593. The Village of Galien operates with a Village President/Council form of government and provides services to its residents in many areas including general government, highways and streets, and utilities services.

The Village Council is made up of the Village President, Clerk, Treasurer, and six (6) trustees who are selected at large for overlapping four-year terms.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*; these financial statements present all financial activities of the Village of Galien (primary government). The Village has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Village of Galien contain all the funds controlled by the Village Council.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the government as a whole. Interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Village's individual major funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and the major enterprise fund are reported as separate columns in the fund financial statements.

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's major streets.
- c. The Local Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's local streets.
- d. The Police Fund is used to account for the financial resources that are used to provide police services.
- e. The Sewer System Fund is used to account for the operations required to provide sewer services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

3. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting - continued

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for the enterprise fund include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Budgets and Budgetary Accounting

The General and major Special Revenue Funds' budgets shown as required supplementary information to the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the required supplementary information.

- a. Prior to March 1, the Village Council prepares the proposed operating budgets for the fiscal year commencing March 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to March 1, the budgets are legally adopted with passage by Council vote.
- d. The budgets are legally adopted at the activity level and total expenditure level for the General Fund and Special Revenue funds, respectively; however, they are maintained at the account level for control purposes.
- e. After the budgets are adopted, all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Village Council.
- f. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at February 29, 2008 are not carried forward to the following fiscal year.
- g. Budgeted amounts are reported as originally adopted or as amended by the Village Council. The individual budgets were appropriately approved by the Village Council in accordance with required procedures.

6. Cash and Investments

Cash consists of various checking accounts.

Investments consist of certificates of deposit with an original maturity of greater than 90 days. All investments are stated at market value.

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

7. Restricted Cash and Investments

A portion of the cash and investments of the Sewer System Fund is classified as restricted cash because their use is limited. The Sewer System Fund's cash restriction is to provide for sewer system improvements.

8. Receivables

Receivables consist of amounts due related to charges for services and other amounts owed to the Village at year-end.

9. Property Taxes

The Village of Galien bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the Village of Galien on July 1 and are payable without penalty through September 15. All real property taxes not paid to the Village by September 15 are turned over to the Berrien County Treasurer for collection. The Berrien County Treasurer remits payments to the Village on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Collections and remittances of all taxes are accounted for in the General Fund. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted to levy taxes up to 12.5 mills (\$12.50 per \$1,000 of assessed valuation) for general governmental services. For the year ended February 29, 2008, the Village levied 8.2248 mills for general governmental services. The total taxable value for the 2007 levy for property within the Village was \$9,763,219.

10. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services and construct assets. The accompanying financial statements generally reflect such transactions as transfers.

The General Fund, Parks and Recreation Fund, and Sewer Fund record charges for equipment rental to various Village departments and funds as revenue. All Village funds record these payments as operating expenditures/expenses.

11. Prepays

Prepaid expenditures in the governmental funds, such as insurance premiums, which are expected to be written off within the next fiscal year, are included in current assets. Reported prepaid expenditures are equally offset by a fund balance reserve which indicates they do not constitute "available spendable resources" even though they are a component of equity.

12. Capital Assets

Capital assets include land, buildings, equipment, vehicles, and the sewer system and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements. Capital assets are those with an estimated useful life of one year or greater. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

12. Capital Assets - Continued

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Machinery and equipment	5 - 20 years
Vehicles	5 - 15 years
Buildings and improvements	20 - 40 years
Infrastructure	20 years
Systems and mains	40 years

13. Comparative Data

Comparative data has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146..
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Village of Galien

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE B: CASH AND INVESTMENTS - CONTINUED

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of February 29, 2008, the carrying amount of the Village's deposits was \$794,389 and the bank balance was \$803,748, of which \$225,000 was covered by federal depository insurance. The remaining balance of \$578,748 was uninsured and uncollateralized.

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of February 29, 2008, the Village did not have any investments that would be subject to rating.

Interest rate risk

The Village has not adopted a policy that indicates how the Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Village has not adopted a policy that indicates how the Village will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Village's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

The cash and investments referred to above have been reported in either the cash or investments captions in the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of February 29, 2008:

Cash	\$ 459,876
Cash - restricted	71,228
Investments - current	71,552
Investments - restricted, current	<u>191,783</u>
	<u>\$ 794,439</u>

The cash captions in the basic financial statements include \$50 in petty cash.

NOTE C: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to General Fund from:	
Local Street Fund	\$ 5,450
Transfers to Local Street Fund from:	
General Fund	\$ 14,181
Nonmajor governmental funds	<u>150,000</u>
	<u>\$ 164,181</u>

Village of Galien

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details interfund receivables and payables at February 29, 2008:

Due to General Fund from:		
Major Street Fund	\$	14,218
Local Street Fund		12,673
Police Fund		<u>9,189</u>
	\$	<u>36,080</u>
Due to Sewer System Fund from:		
General Fund	\$	11,249
Major Street Fund		167
Local Street Fund		38
Nonmajor governmental fund		<u>178</u>
	\$	<u>11,632</u>
Due to nonmajor governmental funds from:		
General Fund	\$	<u>7,018</u>

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE E: CAPITAL ASSETS

Capital asset activity for the year ended February 29, 2008 was as follows:

	Balance March 1, 2007	Additions/ Reclassifications	Deletions/ Reclassifications	Balance Feb. 29, 2008
Governmental activities				
Capital assets not being depreciated				
Land	\$ 8,380	\$ -	\$ -	\$ 8,380
Construction in progress	<u>304,833</u>	<u>78,640</u>	<u>(383,473)</u>	<u>-0-</u>
Subtotal	313,213	78,640	(383,473)	8,380
Capital assets being depreciated				
Buildings and improvements	27,640	-	-	27,640
Infrastructure	-	435,554	-	435,554
Machinery and equipment	71,040	-	-	71,040
Vehicles	<u>98,498</u>	<u>-</u>	<u>-</u>	<u>98,498</u>
Subtotal	197,178	435,554	-0-	632,732

Village of Galien

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE E: CAPITAL ASSETS - CONTINUED

	Balance March 1, 2007	Additions	Deletions	Balance Feb. 29, 2008
Governmental activities - continued				
Less accumulated depreciation				
Buildings and improvements	\$(15,205)	\$(832)	\$ -	\$(16,037)
Infrastructure	-	(21,778)	-	(21,778)
Machinery and equipment	(31,066)	(6,321)	-	(37,387)
Vehicles	(75,724)	(4,891)	-	(80,615)
Subtotal	(121,995)	(33,822)	-0-	(155,817)
Net capital assets being depreciated	75,183	401,732	-0-	476,915
Total net capital assets	\$ 388,396	\$ 480,372	\$(383,473)	\$ 485,295

Depreciation expense was charged to the following governmental activities:

General government	\$ 832
Public safety	767
Public works	32,223
Total	\$ 33,822

	Balance March 1, 2007	Additions	Deletions	Balance Feb. 29, 2008
Business-type activities				
Capital assets not being depreciated				
Land	\$ 20,000	\$ -	\$ -	\$ 20,000
Capital assets being depreciated				
Machinery and equipment	206,923	7,525	-	214,448
Sewer system	1,233,254	-	-	1,233,254
Subtotal	1,440,177	7,525	-0-	1,447,702
Less accumulated depreciation				
Machinery and equipment	(168,720)	(7,522)	-	(176,242)
Sewer system	(818,668)	(30,831)	-	(849,499)
Subtotal	(987,388)	(38,353)	-0-	(1,025,741)
Net capital assets being depreciated	452,789	(30,828)	-0-	421,961
Capital assets, net	\$ 472,789	\$(30,828)	\$ -0-	\$ 441,961

Village of Galien

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE F: RISK MANAGEMENT

The Village participates in a pool, the Michigan Municipal League Liability and Property Pool, with other municipalities for various risks of loss including liability, crime bond and oath, and property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

The Village also participates in a pool, the Michigan Municipal League Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

NOTE G: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedules, the Village's budgeted expenditures in the General and major Special Revenue Funds have been shown at the activity level. The approved budgets of the Village have been adopted at the activity level and the total expenditure level for the General and Special Revenue Funds, respectively.

During the year ended February 29, 2008, the Village incurred expenditures in the General Fund in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Transfers out	\$ -	\$ 14,181	\$ 14,181

NOTE H: BUILDING AND ZONING FINANCIAL INFORMATION

The Village elected to report the financial activities of the building and zoning activity in the General Fund. The following is the required information as it relates to this activity for the year ended February 29, 2008.

REVENUES	
Building Permits	\$ 5,441
EXPENDITURES	
Contracted services	<u>1,782</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 3,659</u>

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE I: FUND EQUITY RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the Village has set aside for specific purposes.

The following are the various fund balance reserves as of February 29, 2008:

Governmental Funds		
General Fund		
Reserved for prepaids	\$	3,961
Major Street Fund		
Reserved for prepaids		70
Local Street Fund		
Reserved for prepaids		70
Police Fund		
Reserved for prepaids		1,067

The following are the fund balance designations as of February 29, 2008:

General Fund		
Designated for subsequent year's expenditures	\$	38,125
Major Street Fund		
Designated for subsequent year's expenditures		9,800
Local Street Fund		
Designated for subsequent year's expenditures		18,320
Police Fund		
Designated for subsequent year's expenditures		7,937
Nonmajor governmental fund		
Designated for subsequent year's expenditures		1,625

NOTE J: RESTRICTED NET ASSETS

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of February 29, 2008:

PRIMARY GOVERNMENT		
Governmental activities		
Restricted for streets	\$	<u>285,223</u>

Village of Galien

NOTES TO FINANCIAL STATEMENTS

February 29, 2008

NOTE K: SUBSEQUENT EVENTS

On April 14, 2008, the Village approved the purchase of new park equipment in the amount of \$22,000. These purchases were financed by the accumulated fund balance in the park fund.

Also, on April 14, 2008, the Village accepted a bid in the amount of \$21,661 for a new generator for the sewer system. Funding for this purchase is to be provided from accumulated net assets of the Sewer fund.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Galien

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 74,740	\$ 74,740	\$ 83,304	\$ 8,564
Licenses and permits	3,000	3,000	5,441	2,441
Intergovernmental	55,000	55,000	65,623	10,623
Interest and rents	24,800	24,800	24,833	33
Other	2,400	2,400	25,921	23,521
TOTAL REVENUES	159,940	159,940	205,122	45,182
EXPENDITURES				
General government				
Village council	7,200	8,700	8,700	-0-
President	5,200	5,200	5,000	200
Elections	1,400	2,575	1,390	1,185
Clerk	10,550	13,715	12,532	1,183
Treasurer	10,269	10,669	10,439	230
Hall and grounds	11,400	18,070	15,481	2,589
Total general government	46,019	58,929	53,542	5,387
Public safety				
Building inspections	3,475	3,750	304	3,446
Electrical inspections	450	1,500	1,478	22
Total public safety	3,925	5,250	1,782	3,468
Public works				
Highways, streets, and bridges	41,100	80,320	74,720	5,600
Drain	2,000	3,000	2,527	473
Streetlights	10,000	10,000	9,826	174
Total public works	53,100	93,320	87,073	6,247
Other				
Insurance	9,000	9,000	7,655	1,345
Professional services	9,680	22,680	22,359	321
Payroll taxes and fringe benefits	19,500	20,850	20,563	287
Demolition charges	-	5,450	5,450	-0-
Other	4,000	12,000	2,042	9,958
Total other	42,180	69,980	58,069	11,911

Village of Galien

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended February 29, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
EXPENDITURES - CONTINUED				
TOTAL EXPENDITURES	<u>\$ 145,224</u>	<u>\$ 227,479</u>	<u>\$ 200,466</u>	<u>\$ 27,013</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	14,716	(67,539)	4,656	72,195
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	5,450	5,450
Transfers out	<u>-</u>	<u>-</u>	<u>(14,181)</u>	<u>(14,181)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>-0-</u>	<u>-0-</u>	<u>(8,731)</u>	<u>(8,731)</u>
NET CHANGE IN FUND BALANCE	14,716	(67,539)	(4,075)	63,464
Fund balance, beginning of year	<u>111,431</u>	<u>111,431</u>	<u>111,431</u>	<u>-0-</u>
Fund balance, end of year	<u><u>\$ 126,147</u></u>	<u><u>\$ 43,892</u></u>	<u><u>\$ 107,356</u></u>	<u><u>\$ 63,464</u></u>

Village of Galien

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental - State				
Gas and weight tax	\$ 37,000	\$ 37,000	\$ 35,663	\$ (1,337)
Interest	3,000	3,000	4,807	1,807
Other	-	-	99	99
TOTAL REVENUES	40,000	40,000	40,569	569
EXPENDITURES				
Public works	31,310	52,820	39,967	12,853
NET CHANGE IN FUND BALANCE	8,690	(12,820)	602	13,422
Fund balance, beginning of year	110,364	110,364	110,364	-0-
Fund balance, end of year	<u>\$ 119,054</u>	<u>\$ 97,544</u>	<u>\$ 110,966</u>	<u>\$ 13,422</u>

Village of Galien

Local Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2008

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Intergovernmental - State				
Gas and weight tax	\$ 15,000	\$ 15,000	\$ 14,027	\$ (973)
Interest	1,000	1,000	8,652	7,652
Other	-	-	3,896	3,896
TOTAL REVENUES	16,000	16,000	26,575	10,575
EXPENDITURES				
Public works	68,780	155,210	127,340	27,870
EXCESS OF REVENUES (UNDER) EXPENDITURES	(52,780)	(139,210)	(100,765)	38,445
OTHER FINANCING SOURCES (USES)				
Transfers in	10,000	10,000	164,181	154,181
Transfers out	-	-	(5,450)	(5,450)
TOTAL OTHER FINANCING SOURCES (USES)	10,000	10,000	158,731	148,731
NET CHANGE IN FUND BALANCE	(42,780)	(129,210)	57,966	187,176
Fund balance, beginning of year	116,291	116,291	116,291	-0-
Fund balance, end of year	<u>\$ 73,511</u>	<u>\$ (12,919)</u>	<u>\$ 174,257</u>	<u>\$ 187,176</u>

Village of Galien

Police Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended February 29, 2008

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Licenses and permits	\$ 500	\$ 500	\$ 752	\$ 252
Interest	150	150	203	53
Other	300	300	285	(15)
TOTAL REVENUES	950	950	1,240	290
EXPENDITURES				
Public safety	22,490	23,790	17,138	6,652
EXCESS OF REVENUES (UNDER) EXPENDITURES	(21,540)	(22,840)	(15,898)	6,942
OTHER FINANCING SOURCES				
Transfers in	-	-	-	-0-
NET CHANGE IN FUND BALANCE	(21,540)	(22,840)	(15,898)	6,942
Fund balance, beginning of year	23,308	23,308	23,308	-0-
Fund balance, end of year	\$ 1,768	\$ 468	\$ 7,410	\$ 6,942

OTHER SUPPLEMENTARY INFORMATION

Village of Galien
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
February 29, 2008

	Parks and Recreation	Economic Development	Total
ASSETS			
Cash	\$ 24,575	\$ -	\$ 24,575
Due from other funds	7,018	-	7,018
TOTAL ASSETS	<u>\$ 31,593</u>	<u>\$ -0-</u>	<u>\$ 31,593</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 62	\$ -	\$ 62
Due to other funds	178	-	178
TOTAL LIABILITIES	240	-0-	240
FUND BALANCES			
Unreserved			
Designated for subsequent year's expenditures	1,625	-	1,625
Undesignated, reported in:			
Special revenue funds	29,728	-	29,728
TOTAL FUND BALANCES	<u>31,353</u>	<u>-0-</u>	<u>31,353</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 31,593</u>	<u>\$ -0-</u>	<u>\$ 31,593</u>

Village of Galien

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended February 29, 2008

	Parks and Recreation	Economic Development	Total
REVENUES			
Interest and rents	\$ 7,420	\$ 718	\$ 8,138
Other	275	-	275
TOTAL REVENUES	7,695	718	8,413
EXPENDITURES			
Community and economic development	-	3,998	3,998
Recreation and cultural	1,928	-	1,928
TOTAL EXPENDITURES	1,928	3,998	5,926
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	5,767	(3,280)	2,487
OTHER FINANCING USES			
Transfers out	-	(150,000)	(150,000)
NET CHANGE IN FUND BALANCES	5,767	(153,280)	(147,513)
Fund balances, beginning of year	25,586	153,280	178,866
Fund balances, end of year	\$ 31,353	\$ -0-	\$ 31,353

Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF THE FINANCIAL STATEMENTS**

To the Honorable President and
Members of the Village Council
Village of Galien
Galien, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Galien, as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements, and have issued our report thereon dated August 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

PAYROLL DISBURSEMENTS PROCESS

During our testing of the payroll disbursements process, we noted that the payroll transactions were generally not posted to the general ledger in a timely manner. In some instances where payroll checks were manually prepared at the beginning of the month, the checks cleared the bank that same month, but were not recorded in the general ledger until the subsequent month. There were other instances where the vouchers for payroll disbursements were prepared by the Clerk, but the checks were not prepared by the Treasurer until the subsequent month. This issue was noted and reported in our audit comments last year.

We recommend that all transactions be recorded in the general ledger in a timely manner.

East Lansing ■ Rochester Hills ■ St. Johns

ADDITIONAL ADMINISTRATIVE POLICIES AND PROCEDURES

Based on our discussions with management, we noted that the Village has not formally adopted written procedures and policies for certain areas of operation. Documenting specific policies and procedures allows employees to have a clearer understanding of management's expectations. It also allows management to have greater visibility over those areas for which they are responsible. Specifically, we recommend that the Village develop, formally adopt, and implement written procedures and policies in the following areas:

- a. Disaster recovery plan - We recommend the Village adopt a disaster recovery plan. The plan should identify areas of operation that are critical to the Village and detail how the Village would continue to operate in the absence of those critical areas of operation.
- b. Conflict of interest policy - A conflict of interest policy will clarify the Village's position on ethical behavior and communicate that position to employees and Council members. We recommend the Village develop and implement a policy addressing conflict of interest and include it in the policy manual and periodically require a declaration of compliance from employees and Council members. The Village should also obtain conflict of interest disclosure statements from its employees and Council members.
- c. Capital asset management policy - We recommend that the Council adopt a policy for the acquisition and disposal of capital assets. The policy should specify the dollar threshold to be used for asset capitalization and that the disposal of capital assets requires formal approval by the Village Council. The policy should also indicate estimated useful lives for each major classification of capital assets. Adoption of the capital asset management policy should be documented in the minutes of the Council meetings.
- d. Accounting policies and procedures manual - We recommend the Village formally document any accounting procedures that are currently in place and supplement this with any Council policies that may be required to support those procedures.
- e. Investment policy - During the course of our audit and through discussions with management, it was noted that although the Village currently has an investment policy, the policy has not been amended to address the reporting requirements of GASB Statement No. 40. Effective for the year ended February 28, 2006, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Village's ability to provide services and meet its obligations as they become due.

We recommend that management review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, as necessary. Such policies are required by GASB Statement No. 40 to be disclosed in the notes to the Village's financial statements.

The issue of adopting additional administrative policies was noted and reported in our audit comments last year. It is our understanding that draft versions of several administrative policies have been developed and are currently being reviewed by the Village's attorney.

FRAUD RISK MANAGEMENT PROGRAM

During the course of our audit, we noted that the Village has not developed or implemented a fraud risk management program. Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity. This issue was noted and reported in our audit comments last year.

Due to the Village not developing a fraud risk assessment and monitoring program it is unable to assess the Village's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of the financial statements.

FRAUD RISK MANAGEMENT PROGRAM - CONTINUED

We recommend that the Village develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

COMPUTERIZED GENERAL LEDGER

The Village currently utilizes QuickBooks accounting software to maintain the general ledger, subsidiary ledgers and receipts journals for utility billings and property tax collections, and manually writes checks for accounts payable and payroll disbursements. These manually written checks often are not entered into the general ledger in a timely manner. This issue was noted and reported in our audit comments last year.

While we have noted improvement with the Village's familiarity with QuickBooks accounting software, we recommend that management evaluate the manual processes throughout the Village's operations to determine where additional efficiencies may be gained. The Village may also wish to consider the efficiencies that could be gained by changing to a more sophisticated accounting software package. Accounting software packages are available that would allow the Village to integrate the utility billing activity and property tax collections activity with the general ledger.

PREPARATION OF FINANCIAL STATEMENTS

Effective for all audits of fiscal years ended December 31, 2006 and thereafter, Statement on Auditing Standards No. 112 titled *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. Throughout the year the Village prepares monthly financial reporting at the fund level. However, the annual audited financial statements for the year ended February 29, 2008 for the Village required significant audit adjustments. This issue was noted and reported in our audit comments last year.

The staff at the Village of Galien understands substantially all of the information included in the financial statements, and as such are able to take responsibility for the content. However, the presentation of financial statements in accordance with generally accepted accounting principles also includes the preparation of government-wide financial statements and note disclosures. Currently the government-wide financial statements and note disclosures are prepared during the audit process.

We are communicating these circumstances as required by professional standards, and do not see a need for any change in the situation at this time.

MANAGEMENT DISCUSSION AND ANALYSIS

The Governmental Accounting Standards Board (GASB) has determined that it is necessary for all governmental entities supplement their basic financial statements with a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Village has not presented a management's discussion and analysis.

It has historically been common for many smaller governments to omit a MD&A. As a result, management's understanding and views of the financial statements are not readily available for reader's.

We are communicating these circumstances as required by professional standards. We recommend the Village Council consider the benefits of preparing a MD&A as well as the related costs to do so.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We believe the significant deficiency described below to be a material weakness.

MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries for the proper recognition of accrual accounting were proposed by the auditors. These misstatements were not detected by the Village's internal control over financial reporting. Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls. This issue was noted and reported in our audit comments last year.

We recommend that the Village take steps to ensure that material journal entries are not necessary for the financial statements to be fairly presented prior to the commencement of audit fieldwork.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance.

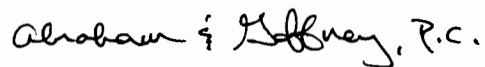
BUDGETS

As noted in the financial statements, one activity in the Village's General Fund exceeded the amounts appropriated. It was also noted that the Village amended the budget in the Local Street Fund to reflect a budgeted deficit fund balance.

Michigan Public Act 621 of 1978, as amended, provides that the Village adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures. The Act also prohibits the Village from appropriating more funds for expenditure than is available through current revenue sources and any accrued surplus or deficit from previous years.

We recommend the Village monitor expenditures against adopted budgets and make appropriate budget amendments as needed.

This report is intended solely for the information and use of management, the Members of the Village Council of the Village of Galien, others within the Village, and applicable departments of the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 1, 2008

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MANAGEMENT LETTER

To the Honorable President and
Members of the Village Council
Village of Galien
Galien, Michigan

As you know, we have recently completed our audit of the records of the Village of Galien, Michigan as of and for the year ended February 29, 2008. In connection with the audit, we wanted to make you aware of an upcoming change the Village will need to consider in the near future. This comment is a result of our evaluation of internal controls and our discussions with management.

Transfers between Major and Local Street Funds

Public Act 9 of 2004 allows a governmental unit to transfer surplus Major Street system funds for the preservation of the Local Street system. This authorization will end December 31, 2008. Effective January 1, 2009, Major Street funds may not be transferred to Local Streets except to the extent matched by local revenues expended on the Major Street system of State Trunkline highways.

We suggest the Village consider this when they plan for the budget process for 2009.

This item was considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements. This item did not affect our report on the financial statements dated August 1, 2008.

This report is intended solely for the information of management and the President and Members of the Village Council of the Village of Galien and is not intended to be, and should not be, used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss this suggestion or the other audit comments with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 1, 2008